



Budget Process Overview

CITY COUNCIL WORK SESSION

JANUARY 21, 2020



Legal Authority and Process

The City Budget Is...

A process to allocate **scarce** resources to programs, services, and infrastructure.



Financial Plan



Operating Guide



Policy Document



Communications
Device



Legal Authority

Legal Authority

Article 42, Chapter 17

Budget adoption = appropriation =
legal spending authority

- ▶ Cannot spend money for a purpose not in budget
- ▶ Cannot incur debt or spend in excess
- ▶ Some detailed by fund, some by department, some in total
- ▶ May transfer between lines



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Legal Authority

Article 42, Chapter 17



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Estimates of Expenses
(pretty much everything):

- ▶ Contingencies, bond principal and interest, property tax levies, other revenue sources, expenses, expenditure limit, # of FTE, salaries, related expenses, retirement, healthcare costs...

State Expenditure Limitations

State Expenditure Limitation (*baseline est. 1979-1980*)

(AZ Const. Article IX, Section 20; A.R.S. 41-563)

- ▶ Home Rule (aka Alternative Expenditure Limitation)
- ▶ Permanent Base Adjustment
- ▶ Capital Projects Accumulation Fund
- ▶ One-Time Override

State Expenditure Limitations

Home Rule (aka Alternative Expenditure Limitation)

- ▶ Constitutional Limit
 - ▶ FY2020 \$56,287,527
- ▶ Home Rule (August 30, 2016)
 - ▶ FY2020 \$236,699,250

State Mandated Budget Calendar

Article 42, Chapter 17

- ▶ Fiscal year is from July 1 to June 30
- ▶ Tentative Budget due by third Monday in July
- ▶ Final Budget due at least 14 days before Property Tax Levy
- ▶ Property Tax Levy due by third Monday in August



Calendar in Practice...

Planning your summer vacation

Month	Activity
December	Council Retreat
January-April	Council Work Sessions
April	Recommended Budget Issued
May	Tentative Budget Adoption
June	Public Hearings (Budget and Truth in Taxation)
June	Final Budget Adoption and Property Tax Levy

Participants in the Budget Process



Mayor and Council
make policy
decisions and set
strategic direction



City Manager
focuses staff on
supporting strategic
direction and
provides a
recommendation



Residents, visitors,
and businesses
provide input
(maybe... often
informally)

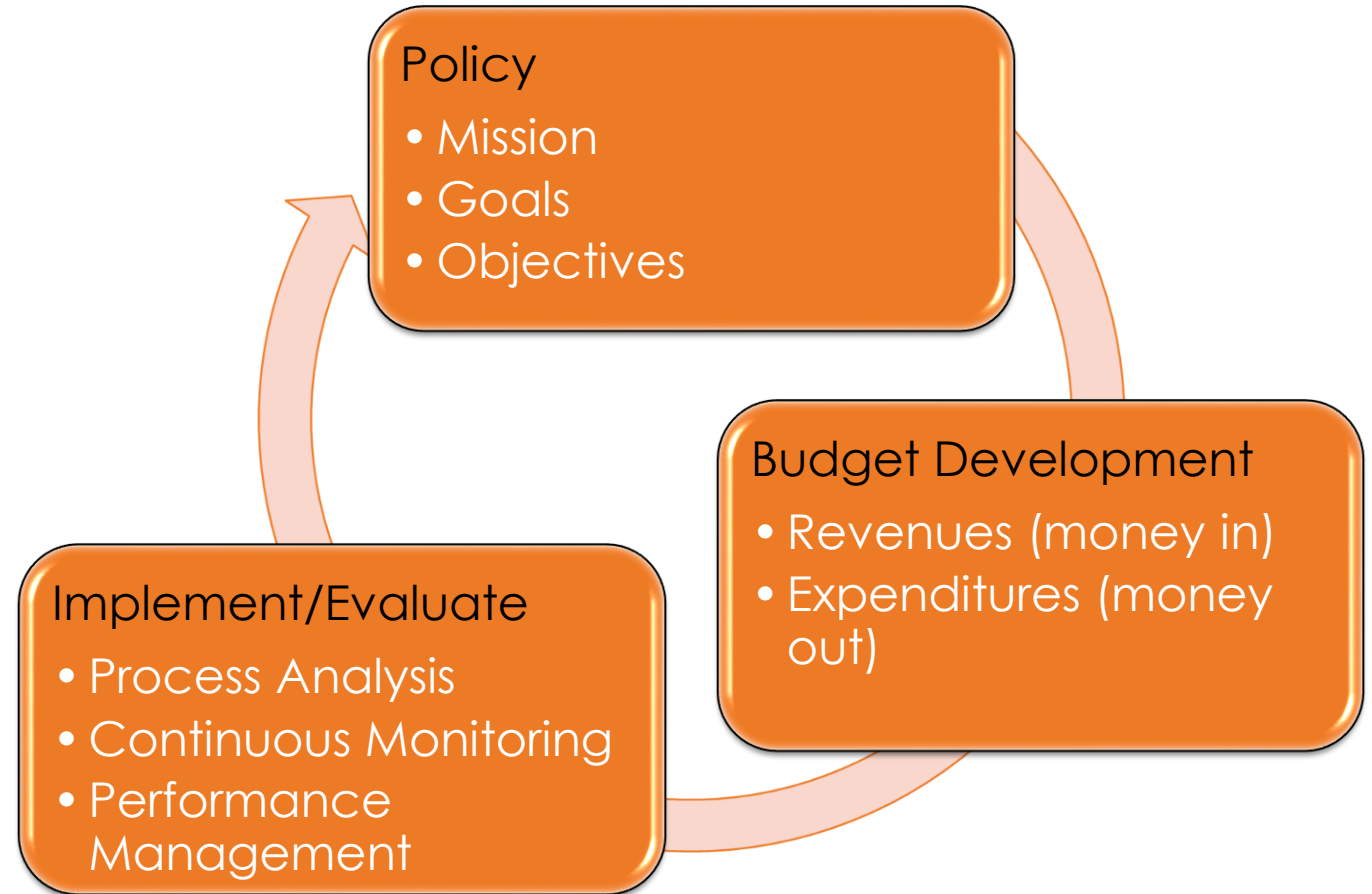


Departments
develop operating
and capital plans,
submit requested
budget changes



Finance/Budget
creates the budget
based on historical
data, future
projections, analysis,
and feedback

The Budget Process





Financial Policies

Financial Policies

Guide financial planning efforts

Published in the budget book annually

- Revenues
- Expenditures/budget control
- Capital planning
- Fund balance
- Debt management

Policies - Revenue



Balanced budget definition



Enterprise funds self-sustaining



Property taxes \$2.00



Rates and fees evaluated annually

Policies - Expenditures



Indirect cost charges



Minimizing mid-year additions



Expenditure of unforeseen revenue



Budget amendment authority

Policies - Capital



10-year planning horizon



Annual CIP citizen's committee review



Maintain favorable investment rating



Operating impact consideration



General goals



Authority for changes

Policies – Fund Balance

- Authority
- General fund
 - Stabilization: 35% of expenditures + transfers
- Water/sewer funds
 - Operating: 9 months of expenditures
 - Repair/replacement: 5% of assets
- Enterprise funds
 - Operating: 4 months of expenditures
 - Annual debt service amount

Policies - Debt

- Long-term not for operations
- Short-term and leases
- G.O. not issued if primary and secondary tax > \$2.00
- Water and sewer as revenue bonds
- Water and sewer operating revenue 1.25x > debt service
- Excise tax bonds through Municipal Development Corporation



Funding

Fund Accounting

Special Revenue Funds

Revenue generated can only be used for specific purposes

Ex. Highway User Revenue Fund (HURF), Dedicated Public Safety Tax Fund

Enterprise Funds

Operate like a business and may reimburse other funds for services provided

Ex. Solid Waste, Water, Sewer, Stormwater Utility Funds

Debt Service Funds

Pay principal and interest on bonds used to finance infrastructure

Ex. General Obligation Bond Fund

Fund Accounting

Internal Service Funds

Used to track goods or services moved between funds on a reimbursement basis
Ex. Employee Health Insurance Fund, Fleet Maintenance Fund

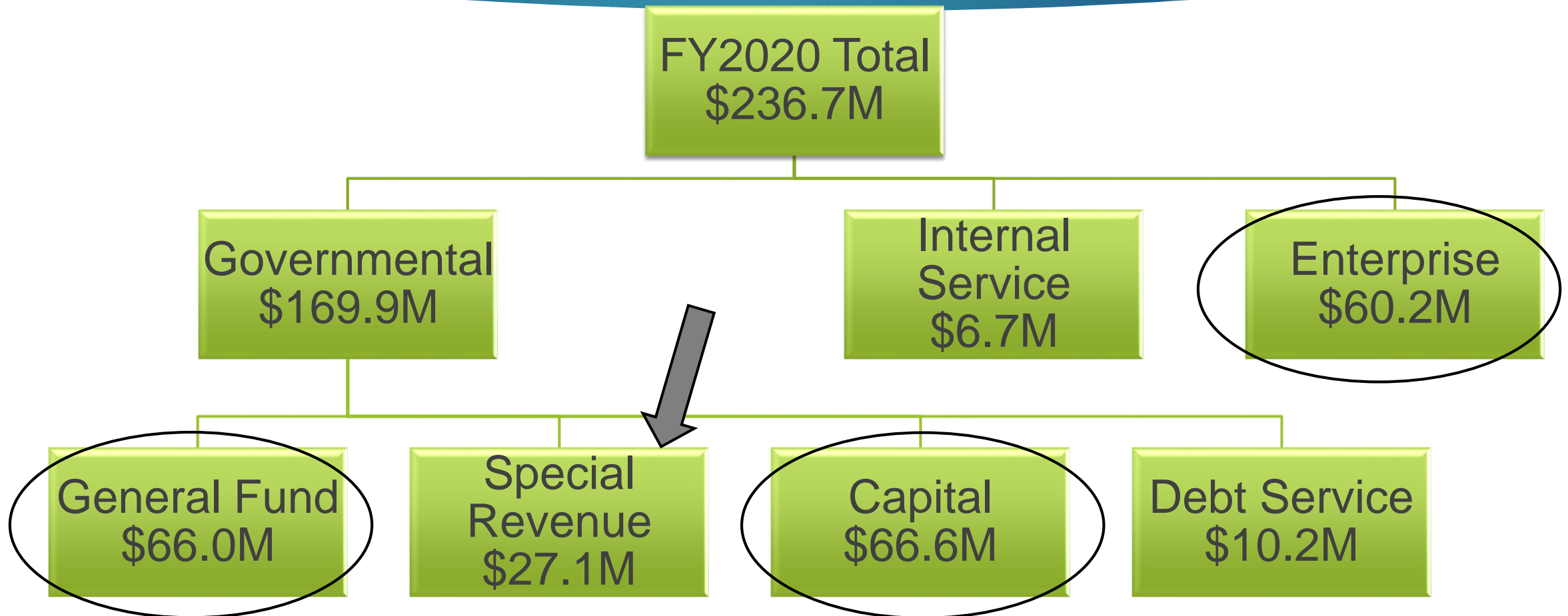
Capital Funds

Used for large-scale construction projects above and below ground
Ex. General Capital Fund, Streets Impact Fee Fund

General Fund

Primary operating fund of a city. Typically funds a significant portion of salaries and services. Can be used for any purpose.

Fund Structure



Contingency

- ▶ Expenditure authority place holder
- ▶ Allows for unforeseen emergencies/challenges during fiscal year
 - ▶ Natural disasters
 - ▶ Legislative changes
 - ▶ Citizen initiatives
 - ▶ Economic development opportunities
- ▶ Backed by either:
 - ▶ Existing funds: i.e. savings
 - ▶ New revenues: i.e. grants

Reserves

- ▶ Ensure the City has adequate resources
- ▶ Fund Balance which is not generally intended to be spent
 - ▶ Unforeseen emergencies
 - ▶ Rainy day funds
 - ▶ Cover revenue shortfalls in economic recession
- ▶ Reserve policies
 - ▶ Use requires Council approval
 - ▶ Draw down should include a plan to replenish

One Time vs. Ongoing

- ▶ One Time Sources and Uses
 - Inconsistent, volatile
 - Fund Balance (source)
 - Contingency (use)
 - Contracting Sales Tax → Capital projects
- ▶ Ongoing Sources and Uses
 - Consistent, relatively stable
 - Expected to occur into the future
 - Local Sales Tax → Personnel costs

Council Work Sessions

Month	Activity
January 21	Process Overview
February 3	Revenue Discussion
February 18	General Fund(s)
March 2	Capital Funds
March 23	Enterprise Funds
April 6	Recommended Budget



Questions/Comments?